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MEMORANDUM

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AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

FROM: Utilities Division

FEB 18 2005

DATE: February 18, 2005

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER AND ELECTRIC COMPANY FOR A DECREASE IN ITS PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE (DOCKET NO. E-01049A-04-0936)

On December 28, 2004 Morenci Water and Electric Company ("Morenci") filed for Commission approval of a decrease in its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. The PPFAC rate is an adjustable rate that reconciles the mathematical difference between the base cost of power set in a rate case and the actual costs for power paid by Morenci. Morenci's base cost of power is \$0.07522 and was authorized by Decision No. 54712 on October 10, 1985. Adjustments to Morenci's PPFAC rate may be made periodically outside a rate case and must be authorized by the Commission. For this reason, Morenci seeks Commission approval for adjustment to its PPFAC rate.

Currently, Morenci has a PPFAC rate of negative \$0.01391 set in Decision No. 57767 on March 16, 1992. The PPFAC rate is a negative number as Morenci's actual cost of power has been lower than the base cost of power set in Decision No. 54712. In this filing, Morenci is asking that the adjustor be reset to negative \$0.04330 as significant overcollection is accruing in the adjustor bank balance.

Morenci initially filed for Commission approval of a two phase decrease in its PPFAC rate in its December 28, 2004 filing. The first phase proposed changing the PPFAC rate to \$0.04330 beginning March 1, 2005. This rate is designed so that the sum of Morenci's base rate and adjustor rate will be below the actual cost of power and consequently reduce the currently existing overcollected bank balance. The second phase would then change the PPFAC rate again on January 1, 2007 to negative \$0.03075. The second phase was intended to reset the adjustor to reflect the cost of power that Morenci anticipates to exist in 2007.

On February 2, 2005, Morenci filed an amended application to replace its application of December 28, 2004. The amended filing continues to seek approval for implementation of a new PPFAC rate of negative \$0.04330 as proposed in the December application but carries a new implementation date of April 1, 2005. The amended filing does not seek the second phase change to the adjustor which would change the rate to \$0.03075 in January 1, 2007 as proposed in the December application.

Previously, Morenci's PPFAC rate had been temporarily adjusted to negative \$0.05052 by Decisions No. 61298 (December 16, 1998) and Decision No. 61705 (May 13, 1999). That rate was implemented for a fixed period of time and expired in May of 2001. Since the expiration of that adjustment the bank balance has grown to the current overcollected level. Power prices paid by Morenci have been stable during that period and consequently overcollection has increased in a very linear fashion. As of December 2004, the undercollected balance is approximately \$475,000.

Staff's analysis of the future PPFAC balance, based on Morenci's projections for future power costs and customer consumption, indicates that the PPFAC balance will not be reduced to zero within 23 months without reducing the effective PPFAC rate from its current rate of negative \$0.01391 to negative \$0.04330, a net reduction of \$0.02939.

Implementation of the new PPFAC rate will have the effect of reducing residential customer's bill from \$51.05 to \$35.76, assuming an average monthly usage of 520 kWh. Residential customer usage averaged over the course of the 2004 calendar year is 520 kWh monthly.

Morenci has indicated to Staff that it has given notice to customers of the proposed change to the adjustor through a bill insert sent in January. An example of the notice is included as Attachment I. Staff has reviewed the insert and found it to be reasonable notice for the proposed change to the adjustor.

Staff has reviewed projections for future cost, consumption, and other estimations used in determining an appropriate credit and finds them reasonable for purposes of setting the credit.

Morenci's proposed reduction to the PPFAC rate of \$0.02939, the difference between the current PPFAC rate and the proposed PPFAC rate, appears to be a reasonable step in addressing the problem of the highly overcollected PPFAC bank balance and it is likely to result in elimination of the overcollection within twenty-three months. Should an adjustment to the PPFAC be made in April, undercollection at that time will have accrued over a period of twenty two months having begun to accrue in June of 2003. The period of anticipated amortization of the undercollected balance will nearly equal to the length of the period in which the balance accrued.

Rather than implementing a two phase rate plan or, alternatively, permanently implementing a single new adjustor rate, Staff recommends that the reduction in the PPFAC rate be implemented through a credit which will be in place for a period of 23 months or until such time as the bank balance is reduced to zero, whichever comes first. Use of a temporary credit rather than a permanent change to the adjustor will mitigate against the need to later implement a surcharge once the overcollection has been eliminated. Use of a temporary credit rather than adopting a plan that implements a two phase rate adjustment will allow for reevaluation of the bank balance and power prices in 2007. Staff finds it more appropriate to determine the 2007

THE COMMISSION

February 18, 2005

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adjustor rates in 2007 based on conditions that prevail at the time rather than attempting to set an adjustor rate today for 2007 when future power costs are not known at this time.

A handwritten signature in black ink, appearing to read "EGJ", followed by a long horizontal line extending to the right.

Ernest G. Johnson
Director
Utilities Division

EGJ:SPI:lhv\DR

ORIGINATOR: Steve Irvine

The Morenci Water & Electric Co.

66 Fairbanks Road
P.O. Box 68
Morenci, AZ 85540
Telephone (928) 865-2229
Facsimile (928) 865-5261

January 25, 2005

To our valued Electric Customer:

RE: PPFA Rate Change

As you know, Morenci Water & Electric is our local electric distribution service provider. As such, we purchase power through a multitude of firm and non-firm agreements, transmit it to our area and distribute it to you through our distribution system in Morenci and Clifton.

Because the cost of electric energy varies depending upon the season, availability and other uncontrollable items, the Arizona Corporation Commission authorizes a Purchased Power Fuel Adjustment (PPFA) bank account method of tracking the difference between the actual cost and the ACC approved rate.

MW&E has been providing electric energy well below the cost of that approved by the ACC and has filed with the ACC a request to modify the adjuster mechanism.

Today you receive an adjustment (reduction) to your bill of \$0.01391 per kWh. For the average residential customer using 500 kWh per month, this is approximately \$7.00 per month reduction to the bill that would normally be approximately \$50.00. MW&E has filed a request with the ACC to change the Adjustment to \$0.0433 kWh. If approved this would reduce this average bill by an additional \$14.70. The following table shows the result of the change depending upon the monthly electric energy usage.

kWh---Residential	Present electric cost with \$0.01391 Adjustment	Proposed electric cost with \$0.0433 adjustment	Proposed Change (Reduction to bill)
250	\$27.40	\$20.05	\$7.35
500	\$49.30	\$34.60	\$14.70
1000	\$93.09	\$63.70	\$29.39
kWh---Commercial			
20000	\$1,757.30	\$1,169.50	\$587.80
70000	\$6,136.8	\$4,079.50	\$2,057.30
150000	\$13,144.00	\$8,735.50	\$4,408.50

MW&E and the ACC are interested in your comments concerning this rate change application that is being placed before the ACC at an open meeting on February 8, 2005 at 1200 W. Washington, Phoenix. Please provide questions or comments to MW&E at (928) 865-2229 or you may contact the ACC at 1-800-222-7000.

1
2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 JEFF HATCH-MILLER
4 Chairman
5 WILLIAM A. MUNDELL
6 Commissioner
7 MARC SPITZER
8 Commissioner
9 MIKE GLEASON
10 Commissioner
11 KRISTIN K. MAYES
12 Commissioner

13 IN THE MATTER OF THE APPLICATION)
14 OF MORENCI WATER AND ELECTRIC)
15 COMPANY FOR A DECREASE IN ITS)
16 PURCHASED POWER AND FUEL)
17 ADJUSTMENT CLAUSE RATE)
18 _____)

DOCKET NO. E-01049A-04-0936

DECISION NO. _____

ORDER

19 Open Meeting
20 March 8 and 9, 2005
21 Phoenix, Arizona

22 BY THE COMMISSION:

23 FINDINGS OF FACT

24 1. On December 28, 2004 Morenci Water and Electric Company ("Morenci") filed for
25 Commission approval of a decrease in its Purchased Power and Fuel Adjustment Clause
26 ("PPFAC" or "adjustor") rate. The PPFAC rate is an adjustable rate that reconciles the
27 mathematical difference between the base cost of power set in a rate case and the actual costs for
28 power paid by Morenci. Morenci's base cost of power is \$0.07522 and was authorized by
Decision No. 54712 on October 10, 1985. Adjustments to Morenci's PPFAC rate may be made
periodically outside a rate case and must be authorized by the Commission. For this reason,
Morenci seeks Commission approval for adjustment to its PPFAC rate.

2. Currently, Morenci has a PPFAC rate of negative \$0.01391 set in Decision No.
57767 on March 16, 1992. The PPFAC rate is a negative number as Morenci's actual cost of
power has been lower than the base cost of power set in Decision No. 54712. In this filing,

...

Decision No. _____

1 Morenci is asking that the adjustor be reset to negative \$0.04430 as significant overcollection is
2 accruing in the adjustor bank balance.

3 3. Morenci initially filed for Commission approval of a two phase decrease in its
4 PPFAC rate in its December 28, 2004 filing. The first phase proposed changing the PPFAC rate to
5 \$0.04330 beginning March 1, 2005. This rate is designed so that the sum of Morenci's base rate
6 and adjustor rate will be below the actual cost of power and consequently reduce the currently
7 existing overcollected bank balance. The second phase would then change the PPFAC rate again
8 on January 1, 2007 to negative \$0.03075. The second phase was intended to reset the adjustor to
9 reflect the cost of power that Morenci anticipates to exist in 2007.

10 4. On February 2, 2005, Morenci filed an amended application to replace its
11 application of December 28, 2004. The amended filing continues to seek approval for
12 implementation of a new PPFAC rate of negative \$0.04330 as proposed in the December
13 application but carries a new implementation date of April 1, 2005. The amended filing does not
14 seek the second phase change to the adjustor which would change the rate to \$0.03075 in
15 January 1, 2007 as proposed in the December application.

16 5. Previously, Morenci's PPFAC rate had been temporarily adjusted to negative
17 \$0.05052 by Decisions No. 61298 (December 16, 1998) and Decision No. 61705 (May 13, 1999).
18 That rate was implemented for a fixed period of time and expired in May of 2001. Since the
19 expiration of that adjustment, the bank balance has grown to the current overcollected level.
20 Power prices paid by Morenci have been stable during that period and consequently overcollection
21 has increased in a very linear fashion. As of December 2004, the undercollected balance is
22 approximately \$475,000.

23 6. Staff's analysis of the future PPFAC balance, based on Morenci's projections for
24 future power costs and customer consumption, indicates that the PPFAC balance will not be
25 reduced to zero within 23 months without reducing the effective PPFAC rate from its current rate
26 of negative \$0.01391 to negative \$0.04330, a net reduction of \$0.02939.

27 7. Implementation of the new PPFAC rate will have the effect of reducing residential
28 customer's bill from \$51.05 to \$35.76, assuming an average monthly usage of 520 kWh.

1 Residential customer usage averaged over the course of the 2004 calendar year is 520 kWh
2 monthly.

3 8. Morenci has indicated to Staff that it has given notice to customers of the proposed
4 change to the adjustor through a bill insert sent in January. Staff has reviewed the insert and found
5 it to be reasonable notice for the proposed change to the adjustor.

6 9. Staff has reviewed projections for future cost, consumption, and other estimations
7 used in determining an appropriate credit and finds them reasonable for purposes of setting the
8 credit.

9 10. Morenci's proposed reduction to the PPFAC rate of \$0.02939, the difference
10 between the current PPFAC rate and the proposed PPFAC rate, appears to be a reasonable step in
11 addressing the problem of the highly overcollected PPFAC bank balance and it is likely to result in
12 elimination of the overcollection within twenty-three months. Should an adjustment to the PPFAC
13 be made in April, undercollection at that time will have accrued over a period of twenty two
14 months having begun to accrue in June of 2003. The period of anticipated amortization of the
15 undercollected balance will nearly equal to the length of the period in which the balance accrued.

16 11. Rather than implementing a two phase rate plan or, alternatively, permanently
17 implementing a single new adjustor rate, Staff recommends that the reduction in the PPFAC rate
18 be implemented through a credit which will be in place for a period of 23 months or until such
19 time as the bank balance is reduced to zero, whichever comes first. Use of a temporary credit
20 rather than a permanent change to the adjustor will mitigate against the need to later implement a
21 surcharge once the overcollection has been eliminated. Use of a temporary credit rather than
22 adopting a plan that implements a two phase rate adjustment will allow for reevaluation of the
23 bank balance and power prices in 2007. Staff finds it more appropriate to determine the 2007
24 adjustor rates in 2007 based on conditions that prevail at the time rather than attempting to set an
25 adjustor rate today for 2007 when future power costs are not known at this time.

26 CONCLUSIONS OF LAW

27 1. Morenci Water and Electric Company is an Arizona public service corporation
28 within the meaning of Article XV, Section 2, of the Arizona Constitution.

1 2. The Commission has jurisdiction over Morenci Water and Electric Company and
2 over the subject matter of the application.

3 3. The Commission, having reviewed the application and Staff's Memorandum dated
4 February 18, 2005, concludes that it is in the public interest to approve a PPFAC credit of
5 \$0.02939 per kWh subject to the conditions discussed herein.

6 ORDER

7 IT IS THEREFORE ORDERED that a PPFAC credit of \$0.02939 per kWh is hereby
8 approved, effective April 1, 2005.

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1 IT IS FURTHER ORDERED that the \$0.02939 per kWh credit end at such time as the
2 bank balance is reduced to zero, or the end of February 2007, whichever occurs first.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4
5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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7
8 CHAIRMAN

COMMISSIONER

COMMISSIONER

9
10
11 COMMISSIONER

COMMISSIONER

12 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2005.

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18 BRIAN C. McNEIL
Executive Secretary

19
20 DISSENT: _____

21
22 DISSENT: _____

23
24 EGJ:SPI:lh\DR

SERVICE LIST FOR: Morenci Water and Electric Company
DOCKET NO. E-01049A-04-0936

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